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Current Support Brief

EAST GERMANY BUNGLES POWERPLANT CONSTRUCTION
IN THE UAR



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EAST GERMANY BUNGLES POWERPLANT CONSTRUCTION
IN THE UAR

According to a recent press report, East Germany has reneged on a contract to expand the Damanhur powerplant in the United Arab Republic (UAR) from a capacity of 30 megawatts (mw) to a capacity of 130 mw. 1/ The move is the culmination of the unhappy history of this construction project. Although in its entirety the Damanhur fiasco cannot be regarded as typical of the Soviet Bloc aid program, it combines in a single aid project almost the maximum possible number of planning miscalculations and administrative blunders that have occurred in various combinations in many other Bloc aid projects. In spite of UAR dissatisfaction with the bungling on this project, however, further economic agreements have been concluded with East Germany.

The story began in 1956, when the East German government, desirous of showing what it could do to assist underdeveloped countries, sent salesmen to the UAR to bid on a powerplant proposed for construction at Al 'Atf. To overcome strong international competition, the East Germans submitted a ridiculously low bid of 1.25 million Egyptian pounds, or approximately \$3.5 million, 2/ and were awarded the contract for construction of the 30-mw powerplant, with the stipulation that all equipment was to be delivered no later than 30 June 1957. 3/ The East German government extended to the UAR a credit of \$3.3 million, approximately 95 percent of the estimated cost of the plant, and delegated the responsibility for construction to Energie und Kraftanlagen (EKE), Berlin.

Construction began late in 1956 but had to be suspended in mid-1957, when it was discovered that the site selected by the German engineers was unsuitable for the erection of a powerplant because the ground was too soft. It was then decided that the plant should be relocated at Damanhur, 18 kilometers (km) from Al 'Atf, and a new completion date was optimistically set for early 1959. 4/

In May 1958, nearly a year after the original date for delivery of the equipment, one of the two turbo-generators had been manufactured in East

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Germany, but other important equipment was not yet ready. 5/ As a result of the delays, in accordance with the terms of the contract, the EKE incurred a penalty of approximately \$2 million. In addition, as the East German engineers labored through the hot summer of 1958, plagued by inept local labor, haphazard planning, and missing parts, it became apparent that the actual costs of installing the equipment would be nearly four and one-half times the original estimate. (The cost of installation was originally estimated at 500,000 DME but actually rose to about 2.2 million DME. Converted at the official rate of exchange then prevailing, this latter figure amounts to an actual cost of approximately \$1 million.) Confronted with the prospect of losses equivalent to several years of profits, the EKE petitioned the East German government for relief and thereby brought on an investigation.

Before the problems of the Damanhur project became quite so apparent, the East Germans, anxious to demonstrate their capability to the UAR, entered into a contract in February 1957 to supply a boiler for the Lebon Thermal Powerplant, with delivery specified for the end of 1957. The contract provided for a 65-percent subsidy by the East Germans and for penalties in the event of failure to deliver on time. After the deadline had passed, however, it came to light that a delivery date of June 1958 had been stipulated by the subcontractors who were to supply the boiler. At about the same time, an additional contract was being negotiated according to which the East Germans would have supplied two boilers for the Alexandria powerplant, but this contract was lost because of the difficulties with the other projects.

The investigation of the unprofitable business in the UAR resulted in changes in the leadership of the UAR aid project. The planning chief, Dorendorf, who concluded the Lebon contract and who failed to secure the Alexandria contract, was arrested, and others were singled out by name as having responsibility for other failures. Commissioner Engelmann, the East German representative in Egypt, undertook settlement of the contracts, but refused all responsibility in the matter. A directive was issued to the effect that in the future no "salesmen" would be sent abroad to negotiate contracts for East Germany and that such activities should be conducted only by "technical delegations." A new construction

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chief, Dieter Oehlmann, was dispatched to Egypt charged with negotiating an extension of the Lebon contract and with trying to bring about successful completion of the Damanhur project. 6/ Herr Oehlmann sensibly used the opportunity to flee from Cairo to West Germany.

The Damanhur plant finally went into operation in January 1960, about a year later than the revised completion date. UAR engineers, however, complained of poor installation work, equipment deficiencies, the need for frequent repairs, and the fact that it took months to get replacement parts. 7/ Moreover, fuel consumption was approximately 6 percent higher than had been specified in the contract. 8/

In spite of these bad experiences, the UAR, in the fall of 1961, awarded East Germany a contract valued at 6 million Egyptian pounds, or approximately \$17 million, for the expansion of the capacity of the Damanhur plant by 100 mw. Probably one of the reasons that the contract was given to East Germany was East Germany's willingness to accept cotton in partial payment for the construction of the powerplant. 9/ The project was given considerable publicity in the East German "slick paper" propaganda publication German Export. 10/ Work was supposed to have begun on the expansion in the spring of 1962, but months passed, and in spite of numerous inquiries by the UAR, nothing happened. Finally in September 1962, after the loss of a considerable amount of valuable time, the East German government acknowledged the fact that the contract could not be fulfilled because the necessary equipment was not available. The USSR and Czechoslovakia, the only other Soviet Bloc countries capable of producing equipment of the required type and size, were unable to help East Germany fulfill the contract, as their capacity for supplying such equipment was already fully committed by their own domestic and foreign aid projects. Consequently, East Germany could no longer conceal its inadequacy from the UAR and was forced to relinquish the contract. A week later, West Germany extended a \$20 million loan to the UAR. The use of these funds has not yet been stipulated, but a consortium of West German industry has expressed interest in the Damanhur project. 11/

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Analyst:



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